

Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 ISO-00 ERDA-07 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05
L-03 NSAE-00 OMB-01 PM-05 OES-07 SP-02 SS-15
STR-04 TRSE-00 ACDA-10 FEA-01 PA-02 PRS-01
NSCE-00 SSO-00 USIE-00 INRE-00 /100 R

DRAFTED BY EB/ORF/FSE:PEBARBIAN:KG
APPROVED BY EB/ORF/FSE:GROSEN
EUR/CAN:JBROH-KAHN

-----040714 100104Z /73

O R 092021Z SEP 77
FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA IMMEDIATE
INFO AMCONSUL VANCOUVER
AMCONSUL CALGARY
AMCONSUL WINNIPEG
AMCONSUL TORONTO
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL HALIFAX

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E.O. 11652: N/A

TAGS: ENRG, CA

SUBJ: GAS PIPELINE FACT SHEET

FOLLOWING MATERIALS WERE RELEASED TO THE PRESS BY THE WHITE
HOUSE ON SEPTEMBER 9, DURING SCHLESINGER PRESS CONFERENCE.
GOLDMAN ASKED THAT THEY BE TRANSMITTED TO THE AMBASSADOR
ALASKAN GAS TRANSPORTATION FACT SHEET -- SUMMARY

CHRONOLOGY
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1968 - DISCOVERY OF PRUDHOE BAY FIELD, CONTAINING OVER 20
TRILLION CUBIC FEET OF SALEABLE NATURAL GAS.

MARCH 21, 1974 - ALASKAN ARCTIC APPLICATION FILED WITH FPC.

SEPTEMBER 24, 1974 - EL PASO ALASKA APPLICATION FILED.

APRIL 7, 1975 - HEARINGS BEGAN BEFORE FPC ADMINISTRATIVE
LAW JUDGE NAHUM LITT.

APRIL 7, 1976 - FINAL ENVIRONMENTAL IMPACT STATEMENT ISSUED.

JULY 9, 1976 - ALCAN AND NORTHWEST FILED APPLICATION WITH FPC.

OCTOBER 22, 1976 - THE PRESIDENT SIGNED THE ALASKA NATURAL GAS TRANSPORTATION ACT OF 1976.

NOVEMBER 12, 1976 - FPC HEARINGS CONCLUDED.

DECEMBER 14, 1976 - FPC ISSUED ORDER NO. 588 PRESCRIBING PROCEDURES UNDER THE ALASKA NATURAL GAS TRANSPORTATION ACT.

FEBRUARY 1, 1977 - FPC JUDGE LITT ISSUED RECOMMENDATION OF ALASKAN ARCTIC PROPOSAL.

MARCH 8, 1977 - ALCAN FILED AMENDED APPLICATION.

APRIL 4-8 1977 - ORAL ARGUMENT BEFORE FPC.

MAY 2, 1977 - FPC'S RECOMMENDATION TO THE PRESIDENT

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THE CONGRESS HAS 60 LEGISLATIVE DAYS IN WHICH TO PASS A JOINT RESOLUTION OF APPROVAL BEFORE THE DECISION CAN TAKE EFFECT. THE ALASKAN NATURAL GAS TRANSPORTATION ACT PROVIDES DATES FOR FURTHER EXECUTIVE AND LEGISLATIVE REVIEW, IF NECESSARY.

COMPANIES

1. ALCAN PIPELINE COMPANY AND NORTHWEST PIPELINE CORPORATION, ALONG WITH THREE CANADIAN COMPANIES--FOOTHILLS PIPELINES LTD., WESTCOAST TRANSMISSION COMPANY LIMITED, AND ALBERTA GAS TRUNK LINE LIMITED--PROPOSED AN OVERLAND ROUTE ROUGHLY FOLLOWING THE ALCAN HIGHWAY THROUGH ALASKA AND CANADA. ALCAN IS A NEW COMPANY FORMED SPECIFICALLY TO BUILD THIS SYSTEM AND TRANSPORT ALASKAN GAS.

2. EL PASO ALASKA COMPANY PROPOSED TO LIQUEFY NATURAL GAS FROM PRUDHOE BAY AT POINT GRAVINA, ALASKA, AND SHIP IT TO A CALIFORNIA TERMINAL. IT IS A SUBSIDIARY OF EL PASO NATURAL GAS COMPANY OF EL PASO, TEXAS.

3. ALASKAN ARCTIC GAS PIPELINE COMPANY PROPOSED TO BUILD AN OVERLAND LINE THROUGH THE WESTERN NORTHWEST TERRITORIES AND ALBERTA. SINCE THE CANADIAN NATIONAL ENERGY BOARD REJECTED THIS PROPOSED ROUTE, ITS DETAILS ARE OMITTED.

LEGISLATION

THE ALASKA NATURAL GAS TRANSPORTATION ACT OF 1976 (PUBLIC LAW NO. 94-586), WAS PASSED BY CONGRESS, OCTOBER 1, 1976, AND SIGNED INTO LAW BY THE PRESIDENT, OCTOBER 22, 1976.

THE ACT WAS INTENDED TO EXPEDITE CONSTRUCTION OF A SYSTEM FOR TRANSPORTING ALASKAN GAS TO U.S. MARKETS BY THE SOUNDEST ROUTE IN TERMS OF THE NATION'S ECONOMIC NATIONAL SECURITY AND ENVIRONMENTAL INTERESTS.

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ROUTES

THE ROUTE AGREED ON BY THE U.S. AND CANADA BEGINS AT PRUDHOE BAY, ALASKA. IT FOLLOWS THE TRANS-ALASKA OIL PIPELINE SOUTHWARD PAST FAIRBANKS TO DELTA JUNCTION. AT DELTA JUNCTION, IT DEPARTS FROM THE OIL PIPELINE AND FOLLOWS THE ALASKA HIGHWAY INTO THE YUKON TERRITORY. IT CROSSES THE NORTHEASTERN CORNER OF BRITISH COLUMBIA AND PROCEEDS TO CAROLINE JUNCTION, ALBERTA, WHERE IT SPLITS. THE WESTERN LEG WOULD DELIVER GAS TO THE NORTHWEST STATES AND TO CALIFORNIA; THE EASTERN LEG TO THE MIDWEST U.S. EL PASO PROPOSED TO BUILD AN 809-MILE LONG, 42-INCH-DIAMETER PIPELINE FROM PRUDHOE BAY ALONG THE TRANS-ALASKA OIL PIPELINE COORIDOR TO A LIQUEFACTION FACILITY AT POINT GRAVINA ON THE SOUTH COAST OF ALASKA. THE LNG WOULD BE TRANSPORTED BY TANKERS TO A CALIFORNIA TERMINAL FOR REGASIFICATION AND DISTRIBUTION. GAS WOULD FLOW TO MIDWEST AND EASTERN MARKETS THROUGH EXISTING SYSTEMS BY DISPLACEMENT.

COST

-----EL PASO-----ALCAN-----

DIRECT COST (\$1975) ----- \$6.900 BILLION--\$7.866 BILLION

INTEREST DURING ----- 0.752 ----- 0.893
CONSTRUCTION

TOTAL CAPITAL COST ----- \$7.652 BILLION--\$8,759 BILLION

ANNAUL U.S. DELIVERED ----- 888 TRILLION BTU-918 TRIL. BTU
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VOLUMES

FUEL EFFICIENCY ----- 89.1 PCT -----92.PCT

AVERAGE U.S. COST
OF SERVICE (\$1975)----- \$1.19 ----- \$1.03

-----TO-----TO

20 YEAR AVERAGE ----- \$1.21 ----- \$1.05

NET ECONOMIC -----\$4.61 BILLION ---\$5.76 BILLION

ECONOMIC BENEFIT

SYSTEM STATISTICS

1. AS PRESENTLY CONTEMPLATED, THE INITIAL CAPACITY OF THE ALCAN PIPELINE SYSTEM WOULD BE 2.4 BILLION CUBIC FEET PER DAY (BCFD) FOR ALASKA GAS AND 1.2 BCFD FOR NORTHERN CANADIAN GAS. ITS ESTIMATED COMPLETION DATE FOR CARRYING U.S. GAS IS JANUARY 1, 1983. IT COULD CARRY LARGER VOLUMES WITH ADDITIONAL COMPRESSION.

2. EL PASO'S OVERLAND PIPELINE WOULD HAVE A DESIGN CAPACITY OF 2.4 BCFD, WITH EXPANSIBILITY TO 3.2 BCFD. IT WOULD BE PLANNED FOR COMPLETION BY MID-1983.

MAJOR POINTS OF AGREEMENT

ROUTE - WOULD FOLLOW ALASKA HIGHWAY IN THE YUKON RATHER THAN THE DAWSON DIVERSION RECOMMENDED BY THE CANADIAN NATIONAL ENERGY BOARD.

SYSTEM EFFICIENCY - HIGHER CAPACITY PIPELINE WOULD BE USED SOUTH OF WHITEHORSE, WITH JOINT TESTING PROGRAM FOR ALTERNATIVE DESIGNS TO PERMIT MAXIMUM EFFICIENCY THROUGHOUT THE SYSTEM TO THE BENEFIT OF BOTH COUNTRIES.

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COST-SHARING - COST OF SERVICE WILL BE ALLOCATED IN PROPORTION TO VOLUMES TRANSPORTED. UNDER THE AGREEMENT, U.S. SHIPPERS WOULD PAY FROM 2/3 TO 100 PERCENT OF THE COST OF SERVICE OF THE DAWSON TO WHITEHORSE SECTION OF THE PROPOSED DEMPSTER LINE, WHICH WOULD CARRY CANADIAN GAS FROM THE MACKENZIE DELTA AREA AND CONNECT WITH THE ALCAN MAIN LINE NEAR WHITEHORSE, YUKON. THE EXACT PROPORTION DEPENDS ON THE DEGREE OF COST OVERRUNS ON THE MAIN LINE IN CANADA.

TAXATION - IN THE YUKON, THERE WILL BE AN ESCALATING CEILING ON PROPERTY TAXES LEVIED BOTH PRIOR TO AND DURING OPERATION, WITH THE CEILING SET AT \$30 MILLION CANADIAN IN 1983 (SUBJECT TO SOME ADJUSTMENTS); IN BRITISH COLUMBIA, ALBERTA, AND SASKATCHEWAN, THE RECENTLY APPROVED PIPELINE TREATY ASSURES NONDISCRIMINATORY PROPERTY TAX TREATMENT SINCE THESE PROVINCES HAVE MANY EXISTING PIPELINES.

FINANCING AND TARIFFS - THE SYSTEM WILL BE PRIVATELY FINANCED AND THE COMPANIES IN EACH COUNTRY WILL HAVE TO

DEMONSTRATE THAT ACCEPTABLE PROVISIONS HAVE BEEN MADE AGAINST THE RISK OF NONCOMPLETION BEFORE PROOF OF FINANCING IS ESTABLISHED AND CONSTRUCTION IS ALLOWED TO BEGIN; THE RETURN ON EQUITY INVESTMENT IN THE SYSTEM WILL BE BASED UPON A VARIABLE RATE OF RETURN DESIGNED TO PROVIDE INCENT-

IVES TO AVOID COST OVERRUNS AND MINIMIZE COST CONSISTENT WITH SOUND PIPELINE MANAGEMENT.

U.S. ADVANTAGES

LOWER COST - ALCAN'S \$1.03 TO \$1.05 PER THOUSAND CUBIC FEET (MCF) COMPARED TO EL PASO'S \$1.19 TO \$1.21 PER MCF
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(1975 DOLLARS).

HIGHER EFFICIENCY - ALCAN WOULD DELIVER 92.1 PERCENT OF ALASKAN GAS ENTERING THE SYSTEM, WHILE EL PASO WOULD DELIVER 89.1 PERCENT.

RELIABILITY - ALL-PIPELINE SYSTEM INHERENTLY MORE RELIABLE THAN LNG/MARINE SYSTEM.

LENGTH OF SERVICE - USEFUL LIFE OF SYSTEM OF OVER 40 YEARS FOR ALCAN COMPARED TO SHORTER LIFESPAN FOR EL PASO LNG TANKERS.

MARKETS - GAS DELIVERED DIRECTLY TO BOTH MIDWEST AND WESTERN MARKETS RATHER THAN JUST TO THE WEST.

ENVIRONMENT - ALMOST ALL STUDIES FOUND ALCAN ENVIRONMENTALLY SUPERIOR.

CANADIAN ADVANTAGES

LOWER COST - THE AGREED UPON ALCAN SYSTEM WOULD REDUCE BY 12 CENTS PER MCF THE COST OF TRANSPORTING THE MACKENZIE DELTA RESERVES, FOR A TOTAL SAVINGS OF MORE THAN \$600 MILLION (1975 DOLLARS), COMPARED TO THE ORIGINAL NEB DECISION.

EXPLORATION - WOULD STIMULATE ADDITIONAL EXPLORATION; WITHOUT THE FIRM EXPECTATION OF A TRANSPORTATION SYSTEM FOR MACKENZIE DELTA GAS, EXPLORATION WOULD CEASE.

SOCIAL IMPACT - THE MACKENZIE VALLEY REGION WILL HAVE MORE TIME TO PREPARE FOR THE SOCIAL IMPACT, SINCE EARLY PIPELINE CONSTRUCTION IS LIMITED TO MORE DEVELOPED AREAS OF THE YUKON. THE PIPELINE COMPANY WILL ADVANCE THE YUKON TERRITORIAL GOVERNMENT FUNDS FOR IMPACT ASSISTANCE
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RELATED TO PIPELINE CONSTRUCTION TO BE REPAID, WITH INTEREST, FROM PROPERTY TAX REVENUES ONCE THE PIPELINE IS OPERATING. THESE TRANSACTIONS WILL HAVE NO EFFECT ON THE COST OF SERVICE TO U.S. SHIPPERS.

SUMMARY FACT SHEET OF AN UNDERSTANDING ON PRINCIPLES BETWEEN THE UNITED STATES AND CANADA ON THE ALCAN PIPELINE PROJECT

GENERAL DESCRIPTION

THE US AND CANADA HAVE REACHED AGREEMENT IN PRINCIPLE ON THE ALCAN JOINT PIPELINE PROJECT TO TRANSPORT NATURAL GAS FROM ALASKA AND FROM THE CANADIAN ARCTIC TO US AND CANADIAN MARKETS.

THE MAIN PIPELINE FROM ALASKA WILL COVER 3,594 MILES, PLUS 1,198 MILES FOR THE WESTERN LEG. A WESTERN LEG DIRECTLY SERVING WEST COAST GAS MARKETS WILL BE AUTHORIZED BY THE PRESIDENT'S DECISION, BUT ITS EXACT CAPACITY WILL BE DETERMINED AT A LATER DATE CONSISTENT WITH AN OPERATIONAL WESTERN LEG AT THE TIME THE MAIN LINE COMES ON STREAM.

THE MAIN PIPELINE, INCLUDING BOTH EASTERN AND WESTERN LEGS IS CURRENTLY ESTIMATED BY THE APPLICANT TO COST \$9.6 BILLION IN CURRENT DOLLARS. THE LATERAL PIPELINE TO THE MACKENZIE DELTA WOULD BE APPROXIMATELY 740 MILES LONG AND IS ESTIMATED BY THE APPLICANT TO COST \$1.4 BILLION; ANOTHER \$0.4 BILLION WILL BE REQUIRED FOR ADDITIONAL COMPRESSION ON THE MAIN LINE AT THE TIME THE LATERAL IS CONNECTED.

ELEMENTS OF THE AGREEMENT UNCLASSIFIED

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THE BASIC COMPONENTS OF THE AGREEMENT IN PRINCIPLE INCLUDE:

1. ROUTING - THE MAIN GAS PIPELINE FROM ALASKA WILL FOLLOW THE ORIGINAL ALASKA HIGHWAY ROUTE WITH NO DIVERSION OF THE ROUTE TO DAWSON. WHEN THE DEMPSTER HIGHWAY LATERAL PIPELINE IS BUILT TO CONNECT CANADA'S MACKENZIE DELTA GAS RESERVES, THIS LINE WILL BE EXTENDED FROM DAWSON, YUKON TERRITORY, TO CONNECT WITH THE ALASKA HIGHWAY LINE AT WHITEHORSE, IN THE YUKON TERRITORY.

2. SYSTEM EFFICIENCY - A HIGHER-CAPACITY PIPELINE SYSTEM THAN WAS PROPOSED BY THE APPLICANT WILL BE INSTALLED

SOUTH OF WHITEHORSE, THE INTERCONNECTION POINT FOR THE TWO LINES, TO CARRY HIGHER VOLUMES OF BOTH US AND CANADIAN GAS UNTIL THE LINE BIFURCATES AT CAROLINE IN ALBERTA. A JOINT TESTING PROGRAM WOULD EVALUATE THE TECHNICAL

FEASIBILITY, SAFETY AND RELIABILITY OF THE TWO

ALTERNATIVES TO THE PROPOSED 1260 PSI 48-INCH PIPELINE DESIGN:

- A DESIGN FOR HIGHER SYSTEM PRESSURE (1680 PSI IN A 48-INCH DIAMETER PIPE) OR

- A DESIGN FOR A LARGER DIAMETER PIPE (54-INCH PIPE AT 1120 PSI SYSTEM PRESSURE).

3. COST-SHARING - FOR THAT PART OF THE PIPELINE IN CANADA THROUGH WHICH BOTH US AND CANADIAN GAS WILL FLOW, COST OF SERVICE WILL BE ALLOCATED IN PROPORTION TO THE VOLUMES OF GAS TRANSPORTED FOR EACH COUNTRY.

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THE PROPOSAL PROVIDES FOR CONSTRUCTION OF THE ORIGINAL PRIME ROUTE THROUGH ALASKA AND CANADA, WITHOUT THE ROUTE DIVERSION REQUIRED BY THE CANADIAN NATIONAL ENERGY BOARD (NEB) IN ITS JULY 4, 1977 DECISION. IN EXCHANGE FOR NOT BUILDING THE DIVERSION TO DAWSON, THE US HAS AGREED TO PAY BETWEEN TWO-THIRDS AND 100 PERCENT OF THE DEMPSTER HIGHWAY LATERAL FROM DAWSON TO WHITEHORSE IN THE YUKON TERRITORY, WHICH WILL CONNECT AT THAT POINT WITH THE MAIN LINE AND TRANSPORT ADDITIONAL VOLUMES OF CANADIAN GAS FROM THE MACKENZIE DELTA.

THE EXACT SHARE OF THE US COST FOR THE EXTENSION WILL BE DETERMINED BY THE PERCENT OF COST OVERRUNS ON CONSTRUCTION OF THE MAIN LINE IN CANADA. FROM 0 TO 35 PERCENT COST OVERRUNS, THE US WOULD PAY 100 PERCENT OF THE WHITEHORSE TO DAWSON SECTION. AT THE EXPECTED 40 PERCENT CASE, THE US WOULD PAY $83 \frac{1}{3}$ PERCENT OR THE RATIO OF US TO CANADIAN VOLUMES AT WHITEHORSE, WHICHEVER IS HIGHER. AT 45 PERCENT AND OVER THE US WOULD PAY $66 \frac{2}{3}$ PERCENT, OR THE RATIO OF US TO CANADIAN VOLUMES AT WHITEHORSE, WHICHEVER IS HIGHER

IN THE COST OVERRUN RANGE OF 35 TO 45 PERCENT, THE US SHARE WOULD VARY LINEARLY FROM 100 PERCENT TO $66 \frac{2}{3}$ PERCENT, UNLESS THE ACTUAL VOLUMES OF US GAS IN THE LINE COMMIT THE US TO PROVIDE A GREATER SHARE.

IN THE LOWER COST OVERRUN CASE OF 35 PERCENT OR BELOW, UNDER WHICH THE US WOULD BE REQUIRED TO PAY THE ENTIRE

COST, THE COST OF SERVICE REDUCTION FROM SUCH OVERRUN SAVINGS ON THE MAIN LINE WOULD MORE THAN OFFSET ANY INCREASE IN COST OF SERVICE RESULTING FROM INCREASING TO 100 PERCENT THE US SHARE OF THE DAWSON TO WHITEHORSE SEG-
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MENT. FOR EXAMPLE, WITH AN OVERRUN OF 25 PERCENT IN CANADA, THE US PAYS 100 PERCENT. IN THIS EXAMPLE, THE

AVERAGE US COST OF SERVICE OVER A TWENTY YEAR PERIOD WOULD BE APPROXIMATELY \$1.00 PER MCF (1975 DOLLARS). THIS IS OVER 20 CENTS BELOW THE EL PASO COST ESTIMATE. WITH A 35 PERCENT OVERRUN, IT IS JUST ABOUT \$1.04. WITH THE EXPECTED CASE OF 40 PERCENT, IT IS SLIGHTLY ABOVE \$1.04.

THE AGREEMENT ALSO IMPOSES A CEILING ON US LIABILITY FOR THE DAWSON SPUR OF 35 PERCENT ABOVE FILED COSTS. THE CANADIANS, IN TURN, CAN CREDIT ANY SAVINGS THEY ACHIEVE ON THE MAIN LINE SYSTEM AGAINST THEIR COST OVERRUNS ON THE DAWSON TO WHITEHORSE SECTION.

THIS AGREEMENT CREATES NEW INCENTIVES - ON A PORTION OF THE PROJECT WITHIN CANADA'S JURISDICTION AND NOT OTHERWISE SUBJECT TO OUR CONTROL - WHICH COULD SIGNIFICANTLY LOWER THE COST OF SERVICE TO THE US AND AT THE SAME TIME

ENHANCE THE PROJECT'S FINANCIBILITY.

4. TAXATION - UNDER THE TRANSIT PIPELINE TREATY, RECENTLY APPROVED BY THE SENATE, TAXATION OF THE PIPELINE IN CANADA WOULD BE LIMITED TO THE LEVELS CHARGED AGAINST SIMILAR PIPELINES IN THE RESPECTIVE PROVINCES. AD VALOREM (PROPERTY) TAXATION IN THE YUKON TERRITORY IS TO BE GOVERNED BY A NEW AGREEMENT BECAUSE THERE ARE NO SIMILAR PIPELINES THERE. THE AGREEMENT PROVIDES FOR A FIXED MAXIMUM AMOUNT AFTER THE PIPELINE BEGINS OPERATION - \$30 MILLION CANADIAN ANNUALLY - THAT WILL BE ADJUSTED FOR INFLATION. THE YUKON PROPERTY TAX WOULD BE LEVIED AT THE SAME RATE AS THE PROPERTY TAX IN ALASKA.

5. OTHER CHARGES - OTHER CHARGES WILL INCLUDE ONLY THOSE DIRECT COSTS NORMALLY PAID BY PIPELINES, SUCH AS HIGHWAY
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MAINTENANCE CAUSED BY MOVING OF HEAVY EQUIPMENT.

6. FINANCING AND TARIFFS - BOTH GOVERNMENTS AGREE THAT THE JOINT PROJECT CAN BE PRIVATELY FINANCED WITHOUT THE AID OF AN "ALL-EVENTS" TARIFF, WHICH WOULD REQUIRE GAS CONSUMERS TO PAY FOR THE PIPELINE REGARDLESS OF WHETHER

OR NOT GAS IS EVER SHIPPED. BOTH GOVERNMENTS ALSO AGREE THAT A VARIABLE RATE OF RETURN ON PIPELINE COMPANY EQUITY CAPITAL SHOULD BE USED TO PROVIDE INCENTIVES TO AVOID COST OVERRUNS. THE US FEDERAL POWER COMMISSION (FPC) AND THE CANADIAN NATIONAL ENERGY BOARD (NEB) WILL STRUCTURE THE TARIFFS IN THE TWO COUNTRIES TO INCORPORATE THIS FEATURE.

THESE PROVISIONS HAVE BEEN INCORPORATED INTO AN AGREEMENT ON PRINCIPLES FOR A NORTHERN NATURAL GAS TRANSPORTATION SYSTEM TO BE SIGNED BY REPRESENTATIVES OF BOTH COUNTRIES.

THE AGREEMENT PROVIDES THAT BOTH GOVERNMENTS WILL SEEK WHATEVER LEGISLATIVE AUTHORITIES ARE NECESSARY AND APPROPRIATE TO INSURE TIMELY AND EFFICIENT CONSTRUCTION OF A JOINT PROJECT. THE AGREEMENT ALSO PROVIDES A MECHANISM FOR PERIODIC CONSULTATIONS ON THE IMPLEMENTATION OF THE AGREED PRINCIPLES. THE JOINT PROJECT HAS A NUMBER OF ADVANTAGES OVER THE ALTERNATIVES BEING CONSIDERED BY EACH COUNTRY:

PROJECT ADVANTAGES

ADVANTAGES FOR US

1. LOWER COST - THE EXPECTED 20-YEAR AVERAGE COST-OF-SERVICE PRICE FOR THE GAS TO THE US CONSUMER FOR THE ALCAN PROPOSAL IS \$1.03 TO \$1.05 PER MILLION BTU'S (THOUSAND UNCLASSIFIED

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CUBIC FEET), WHILE THE COST-OF-SERVICE PRICE FOR EL PASO IS ESTIMATED TO BE \$1.19 TO \$1.21 PER MILLION BTU'S.

2. HIGHER EFFICIENCY - WHEN BOTH CANADIAN AND US GAS ARE FLOWING, THE ALCAN SYSTEM WILL DELIVER 92.1 PERCENT OF THE

ALASKA GAS ENTERING THE SYSTEM, WHILE EL PASO WILL DELIVER ONLY 89.1 PERCENT. THE DIFFERENCE IS 600 TRILLION BTU'S (600 BILLION CUBIC FEET) OVER THE FIRST 20 YEARS OR THE ENERGY EQUIVALENT OF ALMOST 5 BILLION GALLONS OF GASOLINE.

3. SECURITY OF SUPPLY - THE ALL-PIPELINE SYSTEM IS INHERENTLY MORE RELIABLE THAN EL PASO'S COMBINED PIPELINE-

AND MARINE ROUTE.

4. LENGTH OF SERVICE - THE ALL-PIPELINE SYSTEM HAS A SUBSTANTIAL ADVANTAGE OVER EL PASO'S LNG TANKERS AND FACILITIES IN HAVING A USEFUL LIFE IN EXCESS OF 40 YEARS.

5. DELIVERY TO MARKETS - THE ALCAN PROJECT WILL DELIVER GAS DIRECTLY TO BOTH MIDWESTERN AND WEST COAST MARKETS, RATHER THAN TO THE WESTERN US MARKET ONLY, TO BE

DELIVERED FURTHER BY DISPLACEMENT.

6. ENVIRONMENTAL CONSIDERATIONS - ALMOST ALL FEDERAL AGENCIES AND PRIVATE PARTIES HAVE FOUND THE ALCAN ROUTE ENVIRONMENTALLY SUPERIOR TO EL PASO.

7. OTHER CHARGES - A LIMITATION IS PLACED ON EXTRA CHARGES WHICH CAN BE ASSESSED TO THE PROJECT. ADDITIONALLY THE CANADIAN GOVERNMENT HAS MADE IT CLEAR TO THE

UNITED STATES THAT IT REGARDS THE SETTLEMENT OF NATIVE

CLAIMS IN THE YUKON AS AN EXCLUSIVE CANADIAN RESPONSIBILITY. UNCLASSIFIED

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BILITY, AND THAT NO CHARGES AGAINST THE PIPELINE RELATED TO THE SETTLEMENT OF SUCH CLAIMS WILL BE LEVIED.

ADVANTAGES OVER THE NEB-APPROVED ROUTE FOR CANADA

1. LOWER COST - THE JOINT PROJECT WILL LOWER THE TRANSPORTATION COST FOR CANADA'S CURRENT PROVEN MACKENZIE

DELTA RESERVES BY 12 CENTS/MILLION BTU'S IN 1975 DOLLARS FROM THE COST OF THE RE-ROUTED ALCAN PROJECT APPROVED BY THE NEB.

2. FURTHER EXPLORATION - BY POSTPONING THE DECISION TO CONNECT THE MACKENZIE DELTA RESERVES, SELECTION OF THE JOINT PROJECT WILL ALLOW ADDITIONAL EXPLORATION PRIOR TO A FINAL DECISION ON THE DESIGN AND ROUTING OF THAT CONNECTION.

3. PHASED DEVELOPMENT - THE CONSTRUCTION OF THE MACKENZIE DELTA LINE WILL BENEFIT FROM CONSTRUCTION EXPERIENCE ON THE MAIN LINE. FURTHERMORE, THE SEQUENTIAL CONSTRUCTION OF THE MAIN LINE AND LATERAL LINE PROJECTS WILL FACILITATE FINANCING AND EXTEND THE ECONOMIC STIMULUS CREATED BY THE CONSTRUCTION.

4. SOCIAL IMPACT - THE MACKENZIE DELTA REGION WILL HAVE ADDITIONAL TIME TO PREPARE FOR THE SOCIAL IMPACT OF PIPELINE ACCESS TO THE MACKENZIE DELTA GAS FIELDS. UNDER THE JOINT PROJECT, EARLY PIPELINE CONSTRUCTION IS CONFINED TO THE MORE DEVELOPED AREAS OF THE YUKON ALONG THE ALCAN HIGHWAY.

5. SOCIOECONOMIC IMPACT ASSISTANCE - ARRANGEMENTS HAVE UNCLASSIFIED

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BEEN MADE FOR ADVANCE PAYMENT OF YUKON TERRITORY PROPERTY TAXES BY THE PIPELINE COMPANY. THESE LOANS CAN BE REPAID WITH INTEREST FROM FUTURE TAX LIABILITIES WITH NO US COST OF SERVICE EFFECT.

GENERAL ANALYSIS

IN RETURN FOR ROUTING THE MAIN LINE ALONG THE ORIGINAL ALCAN ROUTE, THE US AGREED TO SHARE THE COSTS OF EXTENDING THE DEMPSTER HIGHWAY LATERAL FROM DAWSON TO WHITEHORSE. WHITEHORSE WILL BE THE POINT AT WHICH THE LATERAL PIPELINE FROM THE MACKENZIE DELTA GAS FIELDS CONNECTS TO THE MAIN LINE.

BOTH CANADIAN AND US COST-OF-SERVICE WILL BE LOWER IN THE AGREED UPON PROJECT THAN EITHER WOULD HAVE BEEN UNDER THE NEB DECISION. THE US COMMITMENT TO SHARE IN THE COST OF SERVICE OF THE DAWSON-TO-WHITEHORSE EXTENSION OF THE DEMPSTER HIGHWAY LATERAL WOULD REQUIRE ACTUAL OUTLAYS IF, AND ONLY IF, THAT LATERAL WAS BUILT. THE NEB DECISION WOULD HAVE REQUIRED ALCAN TO RE-ROUTE THE MAIN LINE THROUGH DAWSON AT CONSIDERABLE EXTRA EXPENSE EVEN IF THE DEMPSTER HIGHWAY LATERAL WAS NEVER BUILT. FURTHERMORE, UNDER THE NEW AGREEMENT, THE COST OF EXTENDING THE DEMPSTER LATERAL FROM DAWSON TO WHITEHORSE IS ESTIMATED TO BE ABOUT \$100 MILLION LOWER THAN THE COST OF THE NEB RE-ROUTING.

THE PROPOSED AGREEMENT ON PRINCIPLES PROVIDES ASSURANCES ON ROUTES, TAXATION LEVELS, PROJECT DELAYS, AND OTHER CRITICAL MATTERS. THIS NEW AGREEMENT, ALONG WITH THE TRANSIT PIPELINE TREATY, PROTECTS THE PROJECT FROM UNFAIR OR DISCRIMINATORY CHARGES THAT WOULD OTHERWISE THREATEN THE SAVINGS TO US CONSUMERS.

IN ADDITION TO LOWER COST-OF-SERVICE, THERE ARE A NUMBER UNCLASSIFIED

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OF OTHER JOINT BENEFITS FOR BOTH COUNTRIES FROM THE ALCAN PROPOSAL. THESE INCLUDE:

- THE LARGE AND POSITIVE NET NATIONAL ECONOMIC BENEFIT FROM THE PROJECT FOR BOTH COUNTRIES;
- SUBSTANTIAL STIMULUS FROM THE PROJECT TO THE ECONOMIES OF BOTH COUNTRIES;
- ACCESS FOR CANADA TO ITS FRONTIER GAS RESERVES WILL PLACE CANADA IN A BETTER POSITION TO FULLY MEET EXISTING EXPORT COMMITMENTS TO THE US;
- THE OPPORTUNITY THROUGH EARLY PROJECT CONSTRUCTION TO

INCREASE EXPORT LEVELS TO THE UNITED STATES OVER THE NEXT
FEW YEARS TO ALLEVIATE CRITICAL NATURAL GAS SHORTAGES IN
THE US, PROVIDE ADDITIONAL INCENTIVES FOR WESTERN
CANADIAN GAS PRODUCERS, AND IMPROVE THE LONG-RUN
AVAILABILITY OF CANADIAN GAS;

- POSSIBLE INCREASED COOPERATION ON OTHER ENERGY ISSUES,
SUCH AS OIL SWAPS, PIPELINES AND STRATEGIC RESERVES;

- THE OPPORTUNITY TO DEVELOP A NEW ERA OF MUTUALLY

BENEFICIAL COLLABORATION BETWEEN THE TWO COUNTRIES ON A
BROADER RANGE OF CONCERNS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, DOCUMENTS, PETROLEUM PIPELINES, PRESS RELEASES
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Sep-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Line Count: 612
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: e856aa3a-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 12
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1098777
Secure: OPEN
Status: NATIVE
Subject: GAS PIPELINE FACT SHEET
TAGS: ENRG, CA
To: OTTAWA INFO VANCOUVER MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e856aa3a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009